ATTACHMENT IV

TALK.COM HOLDING CORP
D/B/A NETWORK SERVICES OF NEW HOPE
AND ALSO D/B/A THE PHONE COMPANY
FINANCIAL INFORMATION

Talk Com · 10-K · For 12/31/99

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1999
Commission File No. 0-26728

TALK.COM INC.
(Exact name of registrant as specified in its charter)

DELAWARE	23-2827736
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
12020 SUNRISE VALLEY DRIVE, SUITE 250 RESTON, VIRGINIA (Address of principal executive offices)	20191 (zip code)

(703) 391-7500
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	Not applicable

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE $.01 PER SHARE
RIGHTS TO PURCHASE SERIES A JUNIOR PARTICIPATING PREFERRED STOCK
(Title of class)

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. [X]

As of March 20, 2000, the aggregate market value of voting stock held by non-affiliates of the registrant, based on the average of the high and low prices of the Common Stock on March 20, 2000 of $14.78 per share as reported on the Nasdaq National Market, was approximately $967,913,861 (calculated by excluding solely for purposes of this form outstanding shares owned by directors

As of March 20, 2000, the registrant had issued and outstanding 65,789,152 shares of its Common Stock, par value $.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2000 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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TALK.COM INC.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Talk.com Inc. through its subsidiaries, (the *"Company"* or *"Talk.com"*) provides telecommunications services to residential and business customers throughout the United States, primarily to residential consumers through its e-commerce platform. The Company believes that it currently has the largest share of the e-commerce market for traditional long distance services. The Company's e-commerce platform is built around the Company's advanced online and web-enabled customer care, billing and information systems.

The Company's telecommunication services offerings include long distance outbound service, inbound toll-free service and dedicated private line services for data. The Company has stated that it will continue to seek to leverage its e-commerce business platform to expand its customer base through existing and new marketing arrangements with new business partners and to build a diverse products and services portfolio, including non-telecommunications products and services. The Company markets its telecommunications services through its marketing agreements with various partners including America Online, Inc. (*"AOL"*), Prodigy Communications Corporation, Direct Merchants Bank, First USA Bank and CompuServe and on the Internet through its web site located at www.talk.com. The Company also sells its services on a wholesale basis.

Talk.com carries a majority of its customers' calls over its own network. The Company's network includes Company-owned Lucent 5ESS-2000 switches located in selected areas throughout the United States. The network is further supported by agreements with major interexchange carriers that provide interconnections among the Company's switches and local carriers' switches, origination and termination of calls, overflow capacity, international long distance services and other services that the Company provides to its customers. The Company has also developed and integrated into its network sophisticated information and billing systems that allow the Company to manage its network efficiently and to provide its customers with high quality customer care and billing systems.

Talk.com Holding Corp. (formerly, Tel-Save, Inc.), the Company's predecessor and now its principal operating subsidiary, was incorporated in Pennsylvania in May 1989. The Company was incorporated in June 1995. The address of the Company's principal current executive offices is 12020 Sunrise Valley Drive, Suite 250, Reston, Virginia 20190, and its telephone number is (703) 391-7500. The Company's web address is www.talk.com. Unless the context otherwise requires, references to the *"Company"* or to *"Talk.com"* refer to Talk.com Inc. and its subsidiaries.

SALES AND MARKETING

The Company conducts its sales and marketing efforts both online, through its various partners and the Company's own web site located at www.talk.com, as well as through traditional channels, such as direct mail, telemarketing, independent resellers and partition arrangements.

In 1999, the Company's sales and marketing efforts focused both on continuing the recruiting of AOL subscribers as customers of its telecommunications services under its 1997 marketing agreement with AOL and on establishing marketing agreements with new business partners such as Prodigy Communications Corporation, Wired Digital, Direct Sales International, Schoolcash.com, E*Trade, Direct Merchants Bank and First USA Bank. During 1998, the Company invested substantial sums for marketing under the AOL agreement to establish quickly its subscriber base of AOL customers as part of the Company's developing e-commerce strategy. Of the Company's approximately 1.5 million long distance online customers at the end of 1999, approximately 1.4 million were AOL subscribers and the others were customers obtained through the Company's own direct marketing or with its other marketing partners. At the end of 1998 virtually all of the Company's online customers were AOL subscribers.

During 1999, the Company's marketing efforts were carried out primarily through online marketing initiatives and through a variety of direct marketing programs targeting the customers of its marketing partners as subscribers. In addition, for those customers that have not subscribed to the Company's services online or through direct mail, the Company has a program with AOL and certain of its other marketing partners for the referral of customers by such partners directly to the Company's telephone service centers.

The Company maintains its own web site at www.talk.com as well as sites on the AOL online network to provide for customer sign-up and to provide customers and potential customers with information about the Company's products and services as well as billing information and customer service. The Company provides these services and features using the Company's web-enabled technologies that allow it to offer e-commerce customers:

- Detailed rate schedules and product and service related information.
- Online sign-up for the Company's telecommunications services.
- Credit card billing.
- Real-time and 24 x 7 billing services and online information, providing customers with up to the hour billing information.

With the development of the Company's advanced sign up and billing systems, customers can purchase the Company's telecommunications and other products or services while online on AOL's network or through the Company's own web site. The Company employs its own proprietary billing systems to enable online billing and credit card payment, eliminating the need for costly paper billing. The Company's billing system enables a customer to view his or her bill online or over the Internet on a real-time basis with the call detail and cost for most calls posted within minutes after a customer completes a call. The Company believes that its online billing systems provide it with a competitive advantage in the online market for telecommunications services.

The Company's rights to market long distance and wireless telecommunications services on AOL on an exclusive basis expire on June 30, 2003. However, AOL may elect after June 30, 2000 to allow others to market long distance and wireless telecommunications services on AOL if AOL elects to forego the fixed annual payments from the Company under the AOL agreement (at least $60 million in the 12 months ending June 30, 2001). Under the agreement the Company is entitled to continue marketing its products and services on AOL through June 2003. Among the marketing rights available to the Company under the AOL agreement throughout the term of the agreement until June 2003 are the following:

- AOL welcome screen advertisements, pop-up advertisements and other on-screen promotions and advertisements.
- Direct mail to advertise the Company's products to AOL subscribers, other than subscribers who have elected not to receive telemarketing calls or other promotional materials through AOL.
- A program for promoting the Company's products to specified percentages of AOL subscribers who call AOL's customer inquiry centers.

- o The right (either exclusive or non-exclusive) to market and sell wireless, local (if the Company begins marketing it under the AOL agreement before the end of the long distance exclusivity period) and long distance and other products and services over the AOL online network.

Because of significant marketing rights that would continue even were a termination of the exclusivity period under the AOL agreement to occur, the Company is unable to determine at this date whether the early termination of the exclusivity period and the release of the Company's obligation to make the fixed payments to AOL will be beneficial or detrimental to the Company's business. The Company believes that the exclusivity opportunity under the AOL agreement already has given the Company a valuable lead in marketing telecommunications services to AOL subscribers. However, the Company is unable to predict: (1) whether potential

competitors of the Company will be willing to pay the substantial sums that the Company believes would be required to compensate AOL for foregoing the fixed payments to be paid by the Company during the long distance exclusivity period; or (2) whether potential competitors would be required, or otherwise be willing, to invest the substantial sums that the Company believes would be required to acquire a base of AOL customers for telecommunications services comparable to the Company's existing base of AOL subscribers.

The Company continues to seek new marketing partners and arrangements to expand its opportunities to attract other customers to its services and the products and services that it offers to its expanding customer base. In 1999, the Company entered into several new marketing arrangements, including those with Prodigy Communications Corporation, First USA Bank and Direct Merchants Bank, under which the Company will offer its telecommunications services to their subscribers and customers. Also in 1999, as part of its efforts to expand the bundle of services available to its Internet customers, the Company introduced two new web based enhancements of the Company's core telecommunications services - access to on-line white and yellow pages through a private label relationship with InfoSpace.com, Inc. and a single click procedure for *"reverse"* look up of phone numbers that enables on-line customers to track and verify their billing information by identifying the name and address associated with the phone number called.

In addition, the Company has gained approval from Internet Corporation for Assigned Names and Numbers (ICANN) and the necessary certification from Network Solutions, Inc. thereby enabling the Company to assign web domain names ending in .com, .net, and .org to its customers. The Company plans to waive the underlying fees required for domain name registration for customers who use the Company's telecommunications services. Customers who prefer domain names on an unbundled basis will be charged market rates.

Late in 1999, the Company announced that it would commence leasing local lines for resale, specifically targeting small and medium-sized businesses, which would represent the first major expansion of the Company's portfolio of telecommunication services. In addition, the Company expects to offer local calling to consumers in 2000. The Company expects that it initially will offer the local service to customers reached through its various marketing agreements, bundling the local service with its existing long distance telecommunications service offerings.

Talk.com also provides, as a declining portion of its business, telecommunications services through independent resellers, primarily to small and medium-sized businesses. Although the Company still serves many customers in this manner, such partitions no longer comprise a majority of the Company's business as they once did.

THE COMPANY'S NETWORK

To provide its long distance telecommunications services to customers, the Company predominantly uses its own telecommunications network, One Better Net or *"OBN"*. The Company generally uses OBN to provide services directly to its end users and partitions. As of December 31, 1999, the Company provisioned over OBN more than 90% of the lines using its services.

Controlling its own network provides the Company with advantages compared to when the Company operated strictly as a reseller of the telecommunications services of other carriers, including lower costs of providing long distance services to its customers and greater control over those costs. This control allows the Company to manage its growth as a telecommunications service provider and to target its marketing efforts according to the overhead costs of delivering its services.

Structure of the Network

The Company's network is comprised of equipment and facilities that is either owned or leased by the Company and contracts for certain telecommunications services that the Company maintains with a variety of other carriers. The Company owns, operates and maintains five Lucent 5ESS-2000 switches in its network. These switches are generally considered extremely reliable and feature the Digital Networking Unit--SONET technology. The Digital Networking Unit is a switching interface that is designed to increase the reliability of the 5ESS-2000 and to provide much greater capacity in a significantly smaller footprint.

The switches are connected to each other by connection lines and digital cross-connect equipment that the Company owns or leases. See *"Service Agreements with Other Carriers."* The Company also has installed lines to connect its OBN switches to switches owned by various local telecommunications service carriers. The Company is responsible for maintaining these lines and has entered into a contract with GTE with respect to the monitoring, servicing and maintenance of this equipment.

The access charges that the Company pays to local exchange carriers to connect customers to the Company's network represent a substantial portion of the total cost of providing long distance services over OBN. As a result of regulatory changes and the increasing competitiveness of the local service market, it is expected that access charges will decrease, but there is no assurance that this will occur. In any event, savings from any such decreases may be offset by universal service contributions imposed on carriers, including the Company. See *"Competition"* and *"Regulation"*.

In addition, the Company maintains contracts with other carriers that provide it with a variety of other services. See "*Service Agreements with Other Carriers*." These contracts include services for assisting with the overflow of telecommunications traffic over OBN, for carrying calls internationally and for providing directory assistance and other operator assisted calls. The combination of these contracts permits the Company to obtain a particular type of service from more than one carrier at a given time and gives the Company the flexibility to seek the best rates available for a particular service at a given time.

The fact that the Company operates its own switches subjects the Company to risk of significant interruption. Fires or natural disasters, for example, could cause damage to the Company's switching equipment or to transmission facilities connecting its switches. Any interruption in the Company's services over OBN caused by such damage could have a material adverse impact on the Company's financial condition and results of operations. In such circumstances, the Company could attempt to minimize the interruption of its service by carrying traffic through its overflow and resale arrangements with other carriers.

The Company has continued to expand the capacity of OBN to meet increased demand and believes that such capacity may be further expanded at reasonable cost to meet the Company's needs in the foreseeable future, including expansion resulting from the Company's growth of its business partnerships and its own web site.

Service Agreements with Other Carriers

The Company historically obtained services from AT&T through multiple contract tariffs. With the deployment of OBN, the Company requires fewer such services from that carrier to sell its services. Instead of relying exclusively on AT&T, the Company has entered into contracts with various other long distance and local carriers of telecommunications services for both its OBN and reselling operations. These services enable the Company to:

- Connect the Company's OBN switches to each other
- Connect the Company's switches to the switches of local telecommunications service carriers
- Carry overflow traffic during peak calling times
- Connect international calls
- Provide directory assistance and other operator assisted services

With respect to connections to local carriers, overflow, international and operator assisted services, the Company maintains contracts with more than one carrier for each of these services. The Company believes that it is no longer dependent upon any single carrier for these services. Currently, many price differences exist in the market for purchasing these services in bulk. For example, one carrier may offer the lowest international rates to one country while another offers the lowest rates to a different country. Under the terms of the Company's contracts with its various carriers, the Company is able to choose which services and in what volume (with some minimum commitments) the Company wishes to obtain the services from each carrier. This flexibility enables the Company to minimize its costs for such services by purchasing those services that offer the Company the best rates at a given time.

In February 1999, the Company entered into a new Master Carrier Agreement with AT&T. The agreement, which has since been amended from time to time, provides the Company with a variety of services, including transmission facilities to connect the OBN switches as well as services for international calls, local traffic, international calling cards, overflow traffic and operator assisted calls. Consistent with the Company's desire to expand the sources of its network services, the new contract eliminated a requirement for the Company to purchase the majority of its requirements for these services from AT&T and replaced it with a requirement for the Company to purchase minimum dollar amounts of services from AT&T during the term of the agreement. The Company does not anticipate any difficulty in satisfying these minimum requirements.

Information and Billing Services

In connection with its online billing area under its agreement with AOL, the Company developed advanced online billing and information systems. In March 1999, the Company began providing its non-AOL customers with online access to billing information through its website (www.talk.com), which enables customers to view their billing information and call detail within minutes of completing a call. The Company believes this online service provides the most current information to customers offered by any telecommunications company. The Company also acquires billing and customer care services from other carriers and third party vendors.

The Company provides to each partition computerized management systems that control order processing, accounts receivable, billing and status information in a streamlined fashion. Furthermore, when applicable, the systems interface with third party billing systems for order processing and billing services. Enhancements and additional features are provided as needed.

The information functions of the system are designed to provide easy access to all information about an end user, including volume and patterns of use, which information can be used to identify emerging end user trends and to respond with services to meet end users' changing needs. Such information also allows the Company and its partitions to identify unusual or declining use by an individual end user, which may indicate fraud or that an end user is switching its service to a competitor. FCC rules, however, may limit the Company's use of customer proprietary network information. See "*Regulation*."

COMPETITION

Competition is intense in the long distance industry, even as the market continues to expand. Based on published FCC estimates, toll service revenues of U.S. long distance carriers have grown from $38.8 billion in 1984 to $88.6 billion in 1997. Although the Company believes that it has the human and technical resources to compete effectively, the Company's success will depend upon its continued ability to profitably provide high quality, high value services at prices generally competitive with, or lower than, those of its competitors.

The Company has numerous competitors, many of which are substantially larger and have greater financial, technical and marketing resources than the Company. Three large carriers, AT&T, MCI WorldCom and Sprint, generate approximately 80% of aggregate revenue in the U.S. long distance industry. Approximately 140 other carriers account for the remainder of the long distance market. The aggregate market share (based on operating revenues) of all long distance carriers other than AT&T, MCI WorldCom and Sprint has grown from 2.6%

in 1984 to 19.8% in 1997. During the same period, the market share of AT&T declined from 90.1% to 44.5%.

The long distance market is subject to pricing pressure. The major carriers have targeted price plans at residential customers (the Company's primary target market under its various marketing agreements and its internet offering) with significantly simplified rate structures and with bundles of wireless services and local services with long distance, which may lower overall long distance prices. Competition is fierce for the small to medium-sized businesses that the Company also serves. Additional pricing pressure may come from the introduction of new technologies, such as an internet telephony, which seek to provide voice communications at a cost below that of traditional circuit-switched long distance service. Reductions in prices charged by competitors may have a material adverse effect on the Company.

The Company also competes on the basis of the quality of customer service that it provides to end users. The Company believes that its online and web-enabled billing and information systems have been an important factor in attracting customers and will be an important factor in determining the success of its overall e-commerce initiatives. There can be no assurance that competitors will not develop online billing and information systems that are comparable to the Company's systems.

The entry of the Bell operating companies (*"BOCs"*) into the long distance market may further heighten competition. Under the Telecommunications Act of 1996, the BOCs were authorized to provide long distance service that originates outside their traditional services areas, and may gain authority to provide long distance service that originates within their region after satisfying certain market opening conditions. The Federal Communications Commission, the Department of Justice and state regulators have been working with the BOCs to ensure they satisfy the conditions. As of late 1999, certain BOCs' have entered the long distance market in some states, including Bell Atlantic in New York State. BOC entry into the long distance market means new competition from well-capitalized, well-known companies that have the capacity to *"bundle"* other services, such as local and wireless telephone services, internet access and cable television, with long distance telephone services. While the Telecommunications Act includes certain safeguards against anti-competitive conduct by the BOCs, it is impossible to predict whether such safeguards will be adequate or what effect such conduct would have on the Company. Because of the BOCs' name recognition in their existing markets, the established relationships that they have with their existing local service customers, and their ability to take advantage of those relationships, as well as the possibility of interpretations of the Telecommunications Act favorable to the BOCs, it may be more difficult for other providers of long distance services, such as the Company, to compete.

Consolidation and alliances across geographic regions (e.g., Bell Atlantic/Nynex/GTE and SBC/Pacific Telesis Group/SNET/Ameritech) and in the long distance market (e.g., MCI/WorldCom/Sprint domestically and AT&T/British Telecom internationally) and across industry segments (e.g., AT&T/TCI/Media One) may also intensify competition from significantly larger, well-capitalized carriers. Such consolidation and alliances are providing some of the Company's competitors with the capacity to offer a *"bundle"* of services, including local, long distance and wireless telephone service, as well as Internet access and cable television service.

The competitive telecommunications marketplace is marked by a high rate of customer attrition. The Company's competitors engage in national advertising campaigns and telemarketing programs and offer cash payments and other incentives to the Company's end users, who are not obligated to purchase any minimum usage amount and can discontinue service, without penalty, at any time. There can be no assurance that the Company will be able to continue to replenish its end user base, and failure to do so would have a material adverse effect on the Company.

The Company's online marketing and provision of telecommunications services has been widely imitated by competitors on the Internet, and through their own web site offerings, numerous competitors now offer, over the Internet and on their own web sites, or through links from other web sites sign-up and billing and automatic payment through a credit card. The Company believes that its real-time, online billing system is unique in the marketplace and currently gives the Company a competitive advantage in the e-commerce market for telecommunications services. There can be no assurance, however, that potential competitors will not develop comparable billing and information systems. Any new telecommunications services, such as wireless and local services, offered by the Company would face the same competitive pressures that affect the Company's existing services. The Company faces competition not only from other providers of presubscribed long distance service, but also from dial-around long distance service and prepaid long distance calling cards.

One of the Company's principal competitors, AT&T, is also a major supplier of services to the Company. The Company links some of its switching equipment with transmission facilities and services purchased or leased from AT&T and resells services obtained from AT&T. The Company also utilizes AT&T and AT&T's College and University Systems to provide certain billing services.

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REGULATION

The Company's provision of communications services is subject to government regulation. The Federal Communications Commission regulates interstate and international telecommunications, while the states regulate telecommunications that originate and terminate within the same state. Changes in existing regulations could have a material adverse effect on the Company.

The Company's marketing of telecommunications services over the Internet, directly or with its current marketing partners, the Company's other current and past direct marketing efforts, and the marketing efforts of the Company's partitions all require compliance with relevant federal and state regulations that govern the sale of telecommunications services. The FCC and some states have rules that prohibit switching a customer from one long distance carrier to another without the customer's express consent and specify how that consent must be obtained and verified. Most states also have consumer protection laws that further define the framework within which the Company's marketing activities must be conducted. While directed at curbing abusive marketing practices, unless carefully designed and enforced, such rules can have the incidental effect of entrenching incumbent carriers and hindering the growth of new competitors, such as the Company.

Restrictions on the marketing of telecommunications services are becoming stricter in the wake of widespread consumer complaints throughout the industry about *"slamming"* (the unauthorized conversion of a customer's preselected telecommunications carrier) and *"cramming"* (the unauthorized provision of additional telecommunications services). The Telecommunications Act of 1996 strengthened penalties against slamming, and the FCC issued and updated rules tightening federal requirements for the verification of orders for telecommunications services and establishing additional financial penalties for slamming. The FCC continues to review its rules and determine whether sales of telecommunications services made over the Internet must also be verified through a telephone call or other off-line method. In addition, many states have been active in restricting marketing through new legislation and regulation, as well as through enhanced enforcement activities. The constraints of federal and state regulation, as well as increased FCC, FTC and state enforcement attention, could limit the scope and the success of the Company's and its partitions' marketing efforts and subject them to enforcement action.

The FCC has granted interstate long distance service authority to Bell Atlantic under Section 271 of the Telecommunications Act of 1996 from the State of New York. Other Regional Bell operating companies shall seek to obtain similar authority on a state-by-state basis. These actions may increase competition within the affected states.

Allegedly to combat slamming, many local exchange carriers have initiated *"PIC freeze"* programs that, once selected by the customer, require a customer seeking to change long distance carriers to contact the local carrier directly instead of having the long distance carrier contact the local carrier on the customer's behalf. Many local carriers have imposed burdensome requirements on customers seeking to lift PIC freezes and change carriers, and thereby made it difficult for customers to switch to the Company's long distance service.

Statutes and regulations designed to protect consumer privacy also may have the incidental effect of hindering the growth of newer telecommunications carriers such as the Company. For example, the FCC rules that restrict the use of *"customer proprietary network information"* (information that a carrier obtains about its customers through their use of the carrier's services) may make it more difficult for the Company to market additional telecommunications services (such as local and wireless), as well as other services and products, to its existing customers, if and when the Company begins to offer such services and products.

The FCC requires the Company and other providers of telecommunications services to contribute to the universal service fund, which helps to subsidize the provision of local telecommunications services and other services to low-income consumers, schools, libraries, health care providers, and rural and insular areas that are costly to serve. The Company's mandatory contributions to the universal service fund could increase over time, and some of the Company's potential competitors (such as providers of internet telephony) are not currently, and in the future may not be, required to contribute to the universal service fund.

The FCC imposes additional reporting, accounting, record-keeping and other regulatory obligations on the Company. The Company must offer interstate services under rates, terms and conditions that are just, reasonable and not unreasonably discriminatory. The Company must file tariffs listing the rates, terms and conditions of the

Company's service, but the FCC has proposed to abolish some tariff filing requirements and instead mandate the posting of similar information on the Internet. Although the Company's tariffs, and the rates and charges they specify, are subject to FCC review, they are presumed to be lawful and have never been contested. The Company may be subject to forfeitures and other penalties if it violates the FCC's rules.

The vast majority of the states require the Company to apply for certification to provide intrastate telecommunications services, or at least to register or to be found exempt from regulation, before commencing intrastate service. The vast majority of states also require the Company to file and maintain detailed tariffs listing its rates for intrastate service. Many states also impose various reporting requirements and/or require prior approval for transfers of control of certified carriers, corporate reorganizations, acquisitions of telecommunications operations, assignments of carrier assets, including subscriber bases, carrier stock offerings and incurrence by carriers of significant debt obligations. Certificates of authority can generally be conditioned, modified, canceled, terminated or revoked by state regulatory authorities for failure to comply with state law and the rules, regulations and policies of the state regulatory authorities. Fines and other penalties, including the return of all monies received for intrastate traffic from residents of a state, may be imposed for such violations. State regulatory authorities may also place burdensome requirements on telecommunications companies seeking transfers of control for licenses and the like.

The Company's partitions are also subject to the same federal and state regulations as the Company, and any change in those regulations, or any enforcement action, could adversely affect the partitions and their demand for the Company's services. Actions taken by partitions may also expose the Company to investigations or enforcement actions by government authorities. To the extent that the Company makes additional telecommunications service offerings, the Company may encounter additional regulatory constraints.

EMPLOYEES

As of December 31, 1999, the Company employed 861 persons. The Company considers relations with its employees to be good.

ITEM 2. PROPERTIES

The Company leases an approximately 5,000 square foot facility in Reston, Virginia, that serves as the Company's headquarters and is where a majority of the Company's executives and marketing personnel are located. The Company owns an approximately 24,000 square foot facility in New Hope, Pennsylvania where the Company's finance, legal and programming personnel are located. The Company also leases properties in the cities in which switches for its OBN network have been installed.

With respect to the Company's customer service operations, the Company owns a 32,000 square foot facility located in Clearwater, Florida.

ITEM 3. LEGAL PROCEEDINGS

On June 16, 1998, a purported shareholder class action was filed in the United States District Court for the Eastern District of Pennsylvania against the Company and certain of its officers alleging violation of the securities laws in connection with certain disclosures made by the Company in its public filings and seeking unspecified damages. Thereafter, additional lawsuits making substantially the same allegations were filed by other plaintiffs in the same court. At this point, no classes have been certified. A motion to dismiss was granted as to certain officers of the Company and denied as to the Company. There are currently no officers of the Company who are parties to these actions. The Company believes the allegations in the complaints are without merit and intends to defend the litigations vigorously. The Company also is a party to certain legal actions arising in the ordinary course of business.

The Company believes that the ultimate outcome of the foregoing actions will not result in liability that would have a material adverse effect on the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Information required by Item 4 of this Form 10-K is incorporated by reference to the Company's report on Form 10-Q for the quarter ended September 30, 1999.

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EXECUTIVE OFFICERS

The executive officers of the Company as of March 20, 2000 were as follows:

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NAME	AGE	POSITION
Gabriel Battista	55	Chairman of the Board, Chief Executive Officer, President and Director
Michael Ferzacca	42	Executive Vice President - Sales
Janet C. Kirschner	46	Controller
Aloysius T. Lawn, IV	41	Executive Vice President - General Counsel and Secretary
Edward B. Meyercord, III	34	Executive Vice President - Chief Financial Officer and Treasurer
Vincent W. Talbert	32	Executive Vice President - Marketing
George Vinall	44	Executive Vice President - Business Development

GABRIEL BATTISTA. Mr. Battista joined the Company as its President, Chairman and Chief Executive Officer in January of 1999. Prior to joining the Company, Mr. Battista served as Chief Executive Officer of Network Solutions Inc., an Internet domain name registration company. Prior to joining Network Solutions, Mr. Battista served both as CEO and as President and Chief Operating Officer of Cable & Wireless, Inc., a telecommunications provider. His career also included management positions at US Sprint, GTE Telenet and General Electric Information Services. Mr. Battista serves as a director of Axent Technologies, Inc., Capitol College, Systems & Computer Technology Corporation (SCT), Online Technologies Group, Inc. (OTG) and VIA Net.works.

MICHAEL FERZACCA. Mr. Ferzacca joined the Company in January of 1999. He was formerly Executive Vice President, Sales and Marketing for Pacific Gateway Exchange (a telecommunications company) before joining the Company. Prior to that, Mr. Ferzacca served in various roles at Cable & Wireless USA, a telecommunications provider, including manager of the Alternative Channels Division and Co-Chief Operating Officer.

JANET C. KIRSCHNER. Mrs. Kirschner joined the Company in November 1999. Prior to joining the company, Mrs. Kirschner spent 16 years in corporate accounting with Bell Atlantic as a director in senior level positions, including corporate tax, internal auditing, financial systems implementation and business controls.

Before her tenure with Bell Atlantic, she served six years as a manager and senior accountant for PriceWaterhouseCoopers, formerly Coopers & Lybrand. Mrs. Kirschner is a Certified Public Accountant.

ALOYSIUS T. LAWN, IV. Mr. Lawn joined the Company in January 1996 and currently serves as Executive Vice President - General Counsel and Secretary. Prior to joining Talk.com, from 1985 through 1995, Mr. Lawn was an attorney in private practice.

EDWARD B. MEYERCORD, III. Mr. Meyercord currently serves as the Executive Vice President - Chief Financial Officer and Treasurer of the Company. He joined the Company in September of 1996 as the Executive Vice President, Marketing and Corporate Development. Prior to joining the Company, Mr. Meyercord served as Vice President in the Global Telecommunications Corporate Finance Group at Salomon Brothers, Inc., based in New York and prior to Salomon Brothers he worked in the corporate finance department at Paine Webber Incorporated.

VINCENT W. TALBERT. Mr. Talbert joined the Company in the spring of 1999. Before joining the Company, Mr. Talbert was Senior Vice President of Internet marketing for First USA Bank where he was both the co-founder and co-leader of the Internet Marketing Group. Prior to First USA, Mr. Talbert worked for Citibank in its Credit Card Division.

GEORGE VINALL. Mr. Vinall joined the Company in January of 1999 as Executive Vice President - Business Development. Prior to joining the Company, he served as President of International Protocol LLC, a telecommunication consulting business, as General Manager of Cable & Wireless Internet Exchange, an international internet service provider, and as Vice President, Regulatory & Government Affairs of Cable and Wireless North America, a telecommunications provider.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock, $.01 par value per share (*"Common Stock"*), is traded on the Nasdaq National Market under the symbol *"Talk"*. High and low quotations listed below are actual closing sales prices as quoted on the Nasdaq National Market:

· *Download Table*

COMMON STOCK	*PRICE RANGE OF COMMON STOCK*	
	HIGH	*LOW*
1998		
First Quarter	30	19 1/4
Second Quarter	24 5/16	13 9/16
Third Quarter	19 3/8	9 1/16
Fourth Quarter	19 3/8	4 23/32
1999		

First Quarter	19 5/8	8 1/16
Second Quarter	14 1/4	9 7/8
Third Quarter	12 29/32	8 11/16
Fourth Quarter	18 15/16	11 1/8
2000		
First Quarter (through March 20, 2000)	20 1/8	14 1/16

As of March 17, 2000, there were approximately 379 record holders of Common Stock.

The Company has never declared or paid any cash dividends on its capital stock. The Company currently intends generally to retain future earnings to finance the growth and development of its business and, therefore, does not anticipate paying cash dividends in the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements included elsewhere in this Form 10-K.

· Enlarge/Download Table

	YEAR ENDED DECEMBER 31,				
	1999	1998	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED STATEMENTS OF INCOME DATA:					
Sales	$ 516,548	$ 448,600	$ 304,768	$ 232,424	$ 180,102
Cost of sales	320,751	361,957	294,484	200,597	156,121
Gross profit	195,797	86,643	10,284	31,827	23,981
General and administrative expenses	42,696	41,939	34,650	10,039	6,280
Promotional, marketing and advertising	96,264	210,552	60,685	--	--
Significant other charges (income)	(2,718)	91,025	--	--	--
Operating income (loss)	59,555	(256,873)	(85,051)	21,788	17,701
Investment and other income (expense), net	(1,856)	(11,175)	50,715	10,585	331
Income (loss) before provision (benefit) for income	57,699	(268,048)	(34,336)	32,373	18,032
Provision (benefit) for income taxes (1)(2)	--	40,388	(13,391)	12,205	7,213
Income (loss) before extraordinary gain (1)	57,699	(308,436)	(20,945)	20,168	10,819
Extraordinary gain (from extinguishments of debt)	21,230	87,110	--	--	--
Net income (loss)(1)	$ 78,929	$(221,326)	$ (20,945)	$ 20,168	$ 10,819
Income (loss) before extraordinary gain per share - Basic (1)	$ 0.94	$ (5.20)	$ (0.33)	$ 0.38	$ 0.34
Extraordinary gain per share - Basic	$ 0.35	$ 1.47	--	--	--
Net income (loss) per share - Basic (1)	$ 1.29	$ (3.73)	$ (0.33)	$ 0.38	$ 0.34
Weighted average common shares outstanding - Basic	61,187	59,283	64,168	52,650	31,422
Income (loss) before extraordinary gain per share - Diluted (1)	$ 0.90	$ (5.20)	$ (0.33)	$ 0.35	$ 0.32
Extraordinary gain per share - Diluted	$ 0.33	$ 1.47	--	--	--
Net income (loss) per share - Diluted (1)	$ 1.23	$ (3.73)	$ (0.33)	$ 0.35	$ 0.32
Weighted average common and common equivalent shares outstanding - Diluted	64,415	59,283	64,168	57,002	33,605

	AT DECEMBER 31,				
	1999	1998	1997	1996	1995
	(IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$ 87,125	$ 13,061	$ 634,788	$ 175,597	$ 38,171

Total assets	215,008	272,560	814,891	257,008	71,389
Convertible debt	84,985	242,387	500,000	--	--
Total stockholders' equity (deficit)	40,103	(136,785)	222,828	230,720	41,314

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(1) For the period ended September 19, 1995, Talk.com Holding Corp., the predecessor corporation to the Company (*"Predecessor Corporation"*) elected to report as an S corporation for federal and state income tax purposes. Accordingly, the Predecessor Corporation's stockholders included their respective shares of the Company's taxable income in their individual income tax returns. The pro forma income taxes reflect the taxes that would have been accrued if the Company had elected to report as a C corporation.

(2) The provision for income taxes in 1998 represents a valuation allowance for deferred tax assets recorded in prior periods and current tax benefits that may result from the 1998 loss. The Company provided the valuation allowances in view of the loss incurred in 1998, the uncertainties resulting from intense competition in the telecommunications industry and the lack of any assurance that the Company will realize any tax benefits. The Company has continued to provide a valuation allowance against its deferred tax assets at December 31, 1999.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Form 10-K.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated certain financial data as a percentage of sales:

· *Download Table*

	1999	*1998*	*1997*
Sales	100.0%	100.0%	100.0%
Cost of sales	62.1	80.7	96.6
Gross profit	37.9	19.3	3.4
General and administrative expenses	8.3	9.3	11.4
Promotional, marketing and advertising expenses	18.6	46.9	19.9
Significant other charges (income)	(0.5)	20.3	--
Operating income (loss)	11.5	(57.2)	(27.9)
Investment and other income (expense), net	(0.4)	(2.5)	16.6
Income (loss) before income taxes	11.1	(59.7)	(11.3)
Provision (benefit) for income taxes	--	9.0	(4.4)
Income (loss) before extraordinary gain	11.1	(68.7)	(6.9)
Extraordinary gain	4.1	19.4	--